

annual  
report  
for the  
year ending  
December 28  
1958



**Food Giant**

MARKETS, INC.



## *DIRECTORS*

THEODORE E. CUMMINGS\*

J. HOWARD EDGERTON\*

HAROLD L. FIERMAN\*

ALFRED J. GOCK

RAY L. HOMMES

J. BRADFORD WHARTON, JR.

\**Members of the Executive Committee*

## *OFFICERS*

HAROLD L. FIERMAN  
*Chairman of the Board*

THEODORE E. CUMMINGS  
*President and Chairman of the Executive Committee*

FRANCIS W. DANIELSON  
*Vice President - Finance and Treasurer*

DAVID B. SHERWOOD, *Secretary*

*TRANSFER AGENTS*

*The Marine Midland Trust Company of New York, New York, N.Y.*

*The Corporation Trust Company, Jersey City, N.J.*

*REGISTRAR*

*Chemical Corn Exchange Bank, New York, N.Y.*

*AUDITORS*

*Ernst & Ernst*

*COUNSEL*

*Kaye, Scholer, Fierman, Hays & Handler, New York, N.Y.*

*Robert N. Gold, Beverly Hills, California*

*FOOD GIANT MARKETS, INC.*

*Administrative Office:*

*4707 District Boulevard / Los Angeles 58, California*

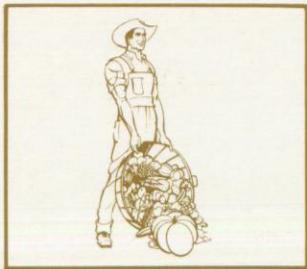
*To  
our  
shareholders:*

The year 1958, the first full annual period of operation following the merger of Magic Chef, Inc. and Food Giant Markets, was a year of both consolidation and expansion. From funds realized early in the year, through the sale of some of the assets of the stove and appliance division of the Company, eleven stores were acquired from Panorama Market Company and Marks Food Corporation, operators of Clarks Markets. In keeping with the Company's policy of operating only large supermarkets, two of the acquired smaller markets were sold at mid-year. Further expansion occurred with the opening of three new supermarkets, one in September and two in late November of 1958. Accordingly, at year end the Company was operating eighteen supermarkets with net current sales at an annual rate of over \$83,000,000, which is believed to be the largest per store sales average in the nation. Concurrently with this program the financial condition of the Company was strengthened so that at the year end working capital amounted to over \$10,000,000 with a current ratio of approximately three to one.

**SALES AND EARNINGS**—During the year the market division had the benefit of sales and earnings of six of the acquired markets for only nine months and for the three newly opened stores for a very short period. The earnings for the year do not therefore reflect the full profit potential from these acquired or newly opened stores, which is usually only achieved after six full months of operation.

Because the operating activities of the stove and appliance division in Franklin, Tennessee, were completely terminated at September 30, 1958, and substantially all of these assets were sold before the year end, your Company believes that it would be more meaningful to report the results of the market division as a separate entity. For the year 1958 on sales of \$71,017,566 the net income of the market division was \$3,025,076, which, after provision for preferred dividends of \$364,329, amounted to \$2,660,747 equivalent to \$2.07 per share on the 1,282,420 shares of Common Stock outstanding at year end. No provision for federal taxes on income was required due to the existence of prior years' loss carry-forward. As of December 28, 1958, there remained about \$3,200,000 of such loss carry-forward to be applied against future income.

In the early part of 1958, continued decline in sales volume in the stove and appliance division business brought about severe production cut-backs at the Franklin, Tennessee,



plant with the resulting cost increase and creation of operating losses. The uncertainty of recovery from this sales decline coupled with the historically low profit margin in the gas range industry led your management to the decision to dispose of the domestic gas range and gas and oil space heater manufacturing and distribution operations. Accordingly, at September 30, 1958, these operations were terminated and substantially all of the assets involved and those relating to the distribution outlets and trade names, were sold before the year end. As a result, the stove and appliance division incurred a non-recurring operating loss in this division for the period of its operation of \$812,783, and losses on the sale of property, plant equipment, etc., of \$690,273. These non-recurring items aggregating \$1,503,056 reduced the Company's overall net income to \$1,522,020, or \$.90 per share on the Common Stock outstanding after provision for preferred dividends. The remaining assets of the former Magic Chef division consist of the closed Cleveland plant (300,000 square feet of manufacturing space and warehouse located on 34 acres) and certain equipment leased to others. Based upon information obtained from qualified appraisers, your management is of the opinion that the Cleveland property will be sold at a substantial profit. Present rentals are sufficient to offset standby expense. Lessees of the equipment referred to above (book value \$49,947) hold an option to purchase such assets for \$90,000, which option your management believes will be exercised during 1959. The balance of the operating assets of the Magic Chef division were converted during the year into a cash fund of about \$6,081,000, a substantial part of which is currently available for possible acquisition of other supermarkets.

**DIVIDENDS**—Two regular semi-annual cash dividends on the Preferred Stock were paid during 1958. In addition, your Board of Directors adopted a dividend policy providing for a 4% annual stock dividend on the Common Stock of the company, payable 2% semi-annually. Pursuant to this announced policy a stock dividend of 2% on the Common Stock was paid December 18, 1958, to holders of record November 28, 1958.

**MANAGEMENT AND PERSONNEL**—Your management, recognizing the task of opening fourteen new markets within one year, emphasized during 1958 the development of management personnel, following its policy to promote within the organization whenever possible. By reason of this program your Company is confident that the performance of each of the new

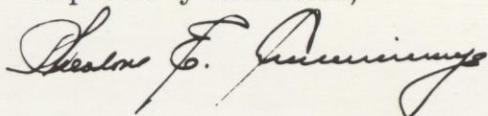
markets will be in keeping with the quality and standards of the present operation.

**DIRECTORS AND OFFICERS**—With the discontinuance of the stove and appliance division, Mr. Cecil M. Dunn resigned as President and Director, Mr. Arthur Strockstrom as a Director, Mr. John H. Mangle as Vice President-Finance and Mr. Clark P. Fiske as Secretary. We wish, at this time, to express our sincere thanks for the efforts of these men on behalf of your Company. Mr. Theodore E. Cummings was elected President and Mr. J. Howard Edgerton was elected to fill one of the vacancies on the Board of Directors, and as a member of the Executive Committee. Mr. Edgerton is chairman of the Board and President of the California Federal Savings and Loan Association, which is the fourth largest such association in the United States. He is also President of the Board of the Sixth District Agricultural Association of California. Mr. Francis W. Danielson was elected Vice President-Finance and Mr. David B. Sherwood was elected Secretary.

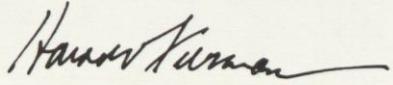
**EXPANSION**—Of fourteen markets in planning or construction stages which were scheduled for 1959 openings, four have already been opened. In addition your Company is negotiating for leases on other locations in California and is considering acquisitions of existing markets for cash. To implement this program arrangements are being concluded for a central warehouse and distribution center situated on a well-located sixteen acre parcel of ground which will not only take care of present requirements but will also offer space for further expansion as required. It is estimated by competent authorities that at its present rate of growth California will be the most heavily populated state in the country by 1965. To keep in step with this population growth your Company will continue its expansion policy, both through new store openings and acquisitions.

By reason of a strike of Retail Food Clerks which lasted almost a month, during which period all except four of the Company's stores were closed, current earnings will be adversely affected. Your management is confident, however, that the year 1959 will be a period of very successful operation assuring continued progress for Food Giant Markets, Inc.

Respectfully submitted,



THEODORE E. CUMMINGS President



HAROLD L. FIERMAN Chairman of the Board

Balance  
Sheet \*

DECEMBER 28, 1958

FOOD GIANT MARKETS, INC.

**ASSETS**

**CURRENT ASSETS**

Cash .....	\$ 4,205,309
Notes and accounts receivable:	
Notes receivable for sale of certain assets of the Magic Chef division (substantially all payable by June 30, 1959) .....	\$2,553,586
Trade accounts receivable:	
Magic Chef division .....	303,549
Food Giant Markets division .....	473,219
	<u>\$3,330,354</u>
Less allowances for doubtful .....	165,000
Merchandise inventories — at lower of average cost or market .....	3,165,354
Prepaid expenses .....	5,658,749
Store properties under construction, subject to agreements of sale and lease-back upon completion .....	324,679
	<u>1,772,554</u>
<b>TOTAL CURRENT ASSETS .....</b>	<b>\$15,126,645</b>

**OTHER ASSETS**

Sundry investments, notes, advances, and deposits .....	\$ 501,678
Property, plant, and equipment not used in operations — on the basis of cost — Note A:	
Land (\$104,774) and buildings, less \$259,880 allowance for depreciation .....	901,646
Machinery and equipment, less \$160,646 allowance for depreciation .....	49,947

**PROPERTY, PLANT, AND EQUIPMENT — on the basis of cost**

Fixtures and equipment, leaseholds, and leasehold improvements .....	\$9,778,879
Less allowance for depreciation and amortization .....	<u>1,733,023</u>
	<u>\$8,045,856</u>
Land .....	91,982
Construction in progress (estimated additional cost to complete — \$820,000) .....	283,336
	<u>\$25,001,090</u>



*See notes to financial statements*

## LIABILITIES

### CURRENT LIABILITIES

Trade accounts payable .....	\$ 3,637,802
Salaries and wages, pay roll taxes, and amounts withheld from employees .....	395,430
Accrued taxes, interest, rent, and other expenses .....	561,341
Current maturities of long-term debt .....	470,675
<b>TOTAL CURRENT LIABILITIES .....</b>	<b>\$ 5,065,248</b>

### LONG-TERM DEBT

5 3/4 % Promissory note payable to insurance company, payable in annual installments of \$367,000 on each July 1st from 1959 until the note shall be paid in full — Note C .....	\$5,500,000
4 % Promissory notes payable for equipment purchased, payable in 1959 .....	50,000
Installment note payable — secured by chattel mortgage on equipment — payable \$4,473 monthly .....	210,227
<b>Less current maturities .....</b>	<b>\$5,760,227</b>
	<b>470,675</b>
	<b>5,289,552</b>

### STOCKHOLDERS' EQUITY

Capital stock:		
Preferred Stock, par value \$10 a share — Note D:		
4 % Cumulative Convertible Preferred Stock; authorized 877,490 shares, converted 64,430 shares, outstanding 813,060 shares .....	\$8,130,600	
Cumulative Convertible Preferred Stock — 4 % Series of 1958; authorized and issued 100,000 shares .....	1,000,000	
Other, not presently defined; authorized 522,510 shares, none outstanding .....	—0—	
Common Stock, par value \$1 a share — Notes E and F:		
Authorized 2,500,000 shares (of which 456,530 shares are reserved for conversion of convertible preferred shares and 69,916 shares are reserved for options); issued and outstanding 1,282,420 shares .....	1,282,420	
Capital surplus .....	2,872,674	
Earned surplus — Notes C and I .....	<u>1,360,596</u>	<u>14,646,290</u>

### COMMITMENTS AND CONTINGENT LIABILITIES

Notes G and H

\$25,001,090



*See notes to financial statements*

*Statement  
of income  
and equity \**

FOOD GIANT MARKETS, INC.

**STATEMENT OF INCOME\*** — *Fiscal year ended December 28, 1958*

Net sales .....	\$71,017,566
Cost of merchandise sold .....	<u>56,122,142</u>
Selling, warehousing, and administrative expenses .....	<u>\$14,895,424</u>
Other income .....	<u>12,127,738</u>
Other deductions:	
Interest .....	\$257,419
Miscellaneous .....	<u>10,350</u>
INCOME BEFORE SPECIAL AND UNUSUAL ITEMS .....	<u>267,769</u>
Special and unusual items:	
Operating loss of Magic Chef division, sold during year .....	\$766,645
Loss on sale of property, plant, and equipment of Magic Chef division .....	<u>690,273</u>
Expenses of property not used in operations, less rental income .....	<u>46,138</u>
NET INCOME — Note B .....	<u>1,503,056</u>
Provision for depreciation and amortization of property, plant, and equipment for the year amounted to \$1,091,238	<u>\$ 1,522,020</u>

**STATEMENT OF STOCKHOLDERS' EQUITY\*** — *Fiscal year ended December 28, 1958*

	4% Cumulative Convertible Preferred Stock	Cumulative Convertible Preferred Stock — 4% Series of 1958	Common Stock	Capital Surplus	Earned Surplus
Balance at January 1, 1958 .....	\$8,774,900	\$	\$1,222,490	\$1,666,782	\$ 621,897
Sale of 100,000 shares of Cumulative Convertible Preferred Stock — 4% Series of 1958 for cash .....		1,000,000			
Conversion of 64,430 shares of 4% Cumulative Convertible Preferred Stock into 32,213 shares of Common Stock, less \$58 paid in lieu of fractional shares .....	644,300†		32,213		612,029
Issuance of 2,580 shares of Common Stock to officers and employees under stock option agreements .....			2,580		24,510
Issuance of 25,137 shares of Common Stock in payment of 2% stock dividend at market value of \$23.65 a share .....			25,137	569,353	594,490†
Cash dividends declared:					
On 4% Cumulative Convertible Preferred Stock — \$.20 a share — Note I .....					175,498†
On Cumulative Convertible Preferred Stock — 4% Series of 1958 — \$.13 1/3 a share — Note I .....					13,333†
Net income for the year .....					<u>1,522,020</u>
Balance at December 28, 1958 .....	<u>\$8,130,600</u>	<u>\$1,000,000</u>	<u>\$1,282,420</u>	<u>\$2,872,674</u>	<u>\$1,360,596</u>

†Indicates deduction



*See notes to financial statements*

## Notes to Financial Statements – December 28, 1958

**NOTE A**—On September 30, 1958, the Company discontinued the operations of its Magic Chef Division and disposed of all assets of that division except accounts receivable, property and plant located in Cleveland, Ohio, and certain equipment leased to others. The Cleveland property is held for sale and management is of the opinion, based on information obtained from qualified appraisers, that this property will be sold at a substantial profit. The lessees of the equipment (carrying value \$49,947) hold an option to purchase such assets for \$90,000.

Results of operations of the Magic Chef Division have been shown on the statement of income as a special item.

**NOTE B**—No federal income taxes are payable on income of the year because of available net operating loss deductions. The net operating loss carry-over to 1959 and subsequent years, based on losses reflected by the Company's returns, with respect to which no reports of examination have been issued by the Internal Revenue Service, was approximately \$3,200,000.

**NOTE C**—An agreement dated May 26, 1958, relating to the note payable to an insurance company, places certain restrictions on the amount of funded debt and on the amount of current debt from borrowings, and requires the Company to maintain working capital of \$5,000,000 to December 31, 1959, and thereafter of \$6,000,000, plus (after December 31, 1960) certain proceeds, after taxes, of sales of fixed assets of the Magic Chef Division. In any event the Company must maintain a ratio of current assets to current liabilities of 1.5 to 1. The agreement also provides that the Company cannot pay cash dividends or acquire its own stock except out of net earnings available for such payments, which at December 28, 1958, amounted to \$1,301,085.

**NOTE D**—The Preferred Stock is issuable in series under such terms and conditions as the Board of Directors may determine. The two series presently outstanding may be redeemed at any time on or after August 1, 1959, at a redemption price equal to \$10.50 a share plus dividends accrued to the redemption date, and in the event of voluntary or involuntary liquidation or dissolution are entitled to \$10 a share plus dividends accrued to the date of such liquidation or dissolution. At the option of the holder thereof, the shares are convertible into fully paid Common Stock of the Company at the rate of one-half share of Common Stock for each share of Preferred Stock.

**NOTE E**—On August 2, 1957, the Stockholders approved a Restricted Stock Option Plan for employees of the Company, including directors and officers, for a maximum of 61,125 shares of unissued or reacquired Common Stock, subject to adjustment in the event of stock dividends, stock split-ups, etc. Options are for a term of five years and are exercisable in three annual installments beginning one year after granting for a maximum of 40% of the optioned shares with the balance becoming exercisable in the two succeeding years. The option price shall not be less than 100% of the fair market value of stock at the time the option is granted.

At January 1, 1958, options for 22,700 shares were outstanding and 38,425 shares were reserved for future grants. During the fiscal year ended December 28, 1958, there were no options granted, and 2,580 shares were sold for \$27,090 to officers and employees exercising their options. At December 28, 1958, after giving effect to the two per cent stock dividend, options were outstanding for 20,522 shares at \$10.29 a share, and 39,194 shares were reserved for future grants. There have been no charges or credits to income with respect to the options.

**NOTE F**—On November 25, 1957, a restricted stock option to purchase 10,000 shares of the Company's Common Stock at \$13.75 a share was granted in connection with an employment agreement. The option is exercisable with respect to 3,570 shares on and after November 25, 1958, an additional 3,570 shares on and after November 25, 1959, and the balance on and after November 25, 1960. It may not be exercised after December 26, 1960 (except if extended by reason of death), nor more than three months after termination of employment. At December 28, 1958, after giving effect to the two per cent stock dividend, 10,200 shares of Common Stock at \$13.48 a share were subject to this option.

**NOTE G**—At December 28, 1958, the Company was contingently liable as endorser on \$1,744,583 of notes receivable that had been sold. These notes had been received on the sale of certain assets of the Company.

**NOTE H**—The aggregate minimum annual rental under leases expiring more than three years from December 28, 1958, approximates \$1,226,000. Many of these leases provide for additional rent based upon sales and also provide that the lessee shall pay certain taxes, insurance, and other charges. Nine of these lease locations for which annual rentals approximate \$450,000 were unoccupied at December 28, 1958, pending construction of buildings. In addition to the foregoing, the Company had entered into sale and lease-back agreements for five locations for which annual rentals will approximate \$260,000.

**NOTE I**—The Semi-annual cash dividend of \$.20 a share on the Preferred Stock, payable February 1, 1959, was declared by the Board of Directors on January 9, 1959.

*...the symbol  
of quality and  
confidence*



*Accountant's  
Report*

Board of Directors  
Food Giant Markets, Inc.  
Los Angeles, California

We have examined the financial statements of Food Giant Markets, Inc. for the fiscal year ended December 28, 1958. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and stockholders' equity present fairly the financial position of Food Giant Markets, Inc. at December 28, 1958, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Los Angeles, California March 4, 1959*

*ERNST & ERNST Certified Public Accountants*

*Serving a  
growing  
California*



